

# Report of the auditor-general to Free State Legislation and the council on the Mangaung Metropolitan Municipality

## Report on the consolidated financial statements

### Introduction

1. I have audited the consolidated financial statements of the Mangaung Metropolitan Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the consolidated financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated financial statements in accordance South Africa Standards of Generally Recognised Accounting Practise (SA Standards of GRAP and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act no. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

3. My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Opinion

6. In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Mangaung Metropolitan Municipality and its subsidiary as at 30 June 2016 and their financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DORA.

## Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## Restatement of corresponding figures

8. As disclosed in note 59 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2015-16 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

## Material losses

9. As disclosed in notes 7, 8 and 9 to the consolidated financial statements, material losses were incurred as a result of the write-off of consumer and other receivables to the amount of R265 432 204 (2015: R86 431 274).
10. As disclosed in note 66 of the consolidated financial statements, material bulk water losses to the amount of R146 392 567 (2015: R173 394 552) were incurred by the municipality mainly due to burst water pipes, leakages and unmetered sites
11. As disclosed in note 66 of the consolidated financial statements, material electricity distribution losses to the amount of R180 249 104 (2015: R154 232 114) were incurred as a result of theft, vandalism, faulty meters and variances in monthly consumption estimates.

## Material impairments

12. As disclosed in notes 6, 7, 8 and 9 to the consolidated financial statements, management made a provision for the impairment of consumer and other receivables to the amount of R2 639 474 261 (2015: R2 488 795 351).

## Unauthorised expenditure

13. As disclosed in note 63 to the consolidated financial statements, the municipality incurred unauthorised expenditure of R654 817 224 (2015: R987 132 533) in the year under review due to expenditure exceeding the limits of the amounts provided for in the votes of the approved budget.

## Irregular expenditure

14. As disclosed in note 65 to the consolidated financial statements, the municipality and its entity incurred irregular expenditure of R32 718 861 (2015: R41 614 683) during the year under review mainly due to non-compliance with the supply chain management prescripts.

## Underspending of conditional grants

15. As disclosed in note 22 to the consolidated financial statements, management has underspent on grants by R106 083 319 (2015: R107 483 829). The underspending was mainly due to the grant conditions not having been met at year-end for the telecom and postal service grant (R5 292 842), the neighbourhood development grant (R32 240 277) and the urban settlement development grant (R58 643 843).

## Additional matters

16. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## Unaudited disclosure notes

17. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement, as contained in note 72 to the financial statements, did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.
18. The appropriation statement set out on pages XX to XX does not form part of the consolidated financial statements and is presented as additional information. I have not audited this statement and, accordingly, I do not express an opinion thereon

## Service delivery

19. Included in the cost of buildings, as disclosed in note 14 to the consolidated financial statements, is a capital expenditure amount of R351 906 448 (2015: R351 906 448) that relates to the intermodal public transport facility. The construction of the facility had been finalised but the facility has not been occupied to date due to disagreement between the taxi industry and the council.

## Amendments to the consolidated financial statements

20. I issued a modified auditor's report dated 12 December 2016 on the separate financial statements of the Mangaung Metropolitan Municipality for the year ended 30 June 2016. Property, plant and equipment in the consolidated financial statements has been revised and adjusted to correct material misstatements included in the separate financial statements.

## Report on other legal and regulatory requirements

21. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

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## **Predetermined objectives**

22. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance areas presented in the annual performance report of the municipality for the year ended 30 June 2016.
- Key performance area: poverty eradication, rural and economic development and job creation on pages ... to ...
  - Key performance area: eradication of bucket system, VIP toilets in Mangaung, Botshabelo and Thaba Nchu, roads, ageing infrastructure, focus on the basics, building solar farm, power plant feasibility study, safety and security on pages x to x
  - Key performance area: human settlements on pages x to x
  - Key performance area: public transport on pages x to x.
23. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
24. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned key performance areas. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
25. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
26. The material findings in respect of the selected key performance areas are as follows:

### **Spatial development and the built environment**

27. I did not raise any material findings on the usefulness and reliability of the reported performance information for this key performance area

### **Eradication of bucket system, VIP toilets in Mangaung, Botshabelo and Thaba Nchu, roads, ageing infrastructure, focus on the basics, building solar farm, power plant feasibility study, safety and security**

#### **Reliability of reported performance information**

28. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for the reported achievements against planned targets of important indicators.

## **Human settlements**

### Usefulness of reported performance information

29. The FMPPI requires performance indicators to be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. A total of 33% of the indicators were not well defined.

### Reliability of reported performance information

30. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the evidence provided.

## **Public transport**

31. I did not raise any material findings on the usefulness and reliability of the reported performance information for this key performance area.

## **Additional matters**

32. I draw attention to the following matters:

### **Achievement of planned targets**

33. Refer to the annual performance report on pages.... to ... for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected key performance areas reported in paragraphs 29, 30 and 31 of this report.

### **Adjustment of material misstatements**

34. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information of eradication of bucket system, VIP toilets in Botshabelo, Mangaung and Thaba Nchu, a focus on the basics, building solar farming, power plant feasibility study, safety and security, human settlements and public transport. As management subsequently corrected only some of the misstatements, I raised material findings on the reliability of the reported performance information.

### **Unaudited supplementary schedules**

35. The supplementary information set out on pages ... to ... do not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon

## Compliance with legislation

36. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### Consolidated financial statements

37. The consolidated financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## Internal control

38. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

### Leadership

39. The leadership did not effectively monitor and enforce the corrective action plans to address weaknesses in the processes of financial and performance reporting identified in previous financial years. The leadership also did not ensure that effective performance management and monitoring processes were implemented, that employees were aligned to the objectives of the municipality, and that effective consequence management was implemented.
40. The position of city manager was vacant for more than six months during the year under review.

### Financial and performance management

41. The municipality lacked formalised processes to manage performance reporting, including the safeguarding of information and, importantly, the effective monitoring and evaluation of reported performance information.
42. Weaknesses in the processes and controls pertaining to asset management were not addressed and the lack of regular monitoring and reconciliation of asset information resulted in the unreliability of the accounting records. Management did not implement the auditors' recommendations included in their action plan to address the weaknesses. These weaknesses gave rise to material misstatements in the annual financial statements which management corrected.
43. Management did not implement consequence management based on the non-achievement of deadlines that were set in the action plan to address the matters reported in the previous financial year.

## Governance

44. The municipality did not have an effective risk management function during the year as its risk committee did not function and did not give direction to the risk management department. Management did not respond sufficiently to the concerns raised by the audit committee in this regard, which resulted in the breakdown of this critical function.

*Auditor - General*

Bloemfontein

6 February 2017



AUDITOR - GENERAL  
SOUTH AFRICA

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